



# CALIFORNIA Economic Indicators

September–October 2005

## Steady, Stable Growth

Despite mixed signals, the California economy continues to expand

### REVIEW OF RECENT ECONOMIC DEVELOPMENTS

Special factors affected California's economic indicators in August, September, and October. Earlier than usual back-to-school hiring led to ambiguous employment reports. Also, new building regulations that began in October caused residential permit issuance to jump in September and fall sharply in October, although commercial permitting remained strong. Beneath this increased variability, the state economy appeared to decelerate moderately in the fall.

### Employment

Local government education employment rose by 4,000 in August 2005, the first such late-summer increase in the employment series that dates back to 1990. Typically, education employment drops in August-by 20,000 on average-as school activity continues to unwind during the summer. In September of this year, local government education employment rose by 59,000, but in the previous 15 years it increased about 79,000 on average, as school years began. The total two-month change remained about the same in 2005; only the monthly pattern was different.

The change in the pattern of local government education employment shows up clearly in total government employment, which declined less than usual in August and gained less than average in September. When total government employment was adjusted for seasonal effects, based on historical patterns, the small loss in August became a large gain, and the weak gain in September, a loss (figure).

In addition to becoming more volatile, month-to-month jobs gains became smaller, on average, after mid-year. Using a 3-month moving average of total nonfarm employment to remove some of the increased volatility, the year-over-year pace of job growth peaked at 1.8 percent in June before slowing gradually to 1.4 percent in November.

The estimate for November may prove to be too low, however. The state gained 20,400 jobs in November, even though government employment fell by 12,200. The loss of government jobs was again concentrated in local government education. In this case, the number of school districts reporting their employment numbers was unusually small. This increases the likelihood that the local

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FIGURE 1

### Unusual Government Employment Pattern

Month-to-Month Change in Government Employment  
1,000s of Jobs

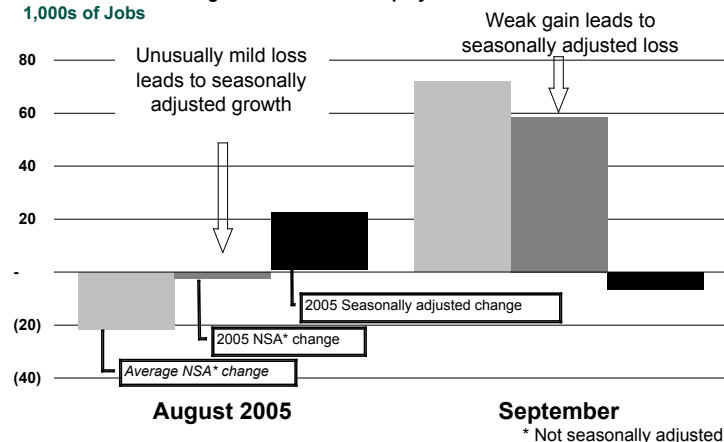
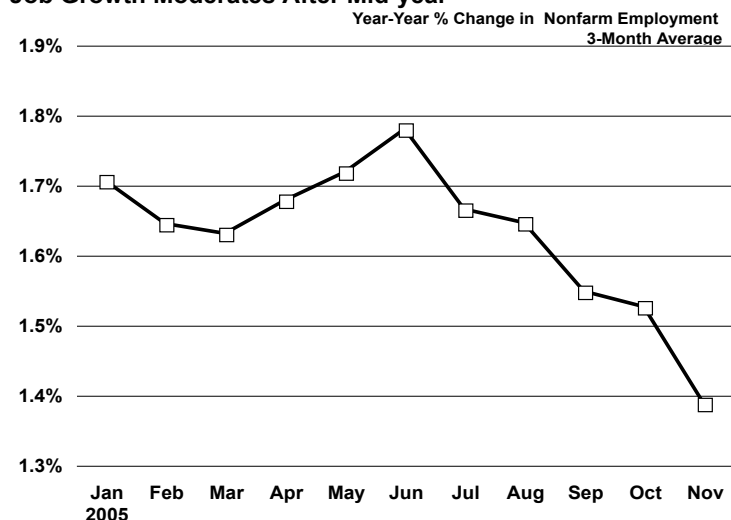


FIGURE 2

**Job Growth Moderates After Mid-year**

education employment estimate for November will be revised upward in the December labor market report.

As the numbers stand now, California gained less than its 11-percent share of the nation's 215,000-job gain in November, but far more than its share of the private sector job gains for the nation-17 percent. While California was losing government sector jobs in November, the rest of the nation gained 33,200 government sector jobs.

The state's employment gains in November were broad based as nine of the 11 major industry sectors added jobs. Construction added 8,000; trade, transportation and utilities, 7,900; professional and business services, 7,200; information, 6,100; leisure and hospitality, 1,300; financial activities, 1,300; manufacturing, 500; other services, 300; and, natural resources and mining, 100. Other than the large loss in

government, 100 jobs were lost in Educational and Health Services.

From November 2004 to November 2005, nonfarm payroll jobs rose in 10 of the 11 major industry sectors: 65,900 in construction, 33,700 in leisure and hospitality, 31,600 in professional and business services, 22,100 in private educational and health services, 14,400 in trade, transportation and utilities, 12,100 in financial activities, 8,700 in government, 3,300 in manufacturing, 2,000 in other services, and 200 in natural resources and mining. Only the information sector had lower employment than a year ago, with 7,600 fewer jobs.

**Steady unemployment rate**

California's household employment picture has improved more than the nation's. The state's unemployment rate declined 0.8 of a percentage point since November 2004. Over the same time, the national rate dropped by only 0.4 of a percentage point. Over the year, civilian employment rose by 2.5 percent in California, compared to only 1.6 percent in the nation. The state's unemployment rate was 5.2 percent in November, unchanged from a revised 5.2 percent in October.

**Income****Strong income growth continues**

Personal income was 6.2 percent higher than a year earlier in California in the first three quarters of 2005, a somewhat bigger gain than that in the nation as a whole. The fastest growing component in the state was supplements to wages and salaries (benefits), which grew by 9.0 percent. Wages and salaries-the largest component of personal income-also grew smartly, expanding by 6.7 percent. The only major component in which the nation outgrew California was dividends, interest, and rent.

**Building Activity****New regulations led to home building two-step**

New building standards-mandated by the California Energy Commission on October 1, 2005 to increase energy efficiency-appeared to cause a dramatic increase in residential permit issuance in September, followed by a drop in October. September residential building permits were up by 23 percent from a year ago, while October issuance was down

FIGURE 3

**Select Components of Personal Income**  
**First 3 Quarters of 2005**  
**Year-Over-Year Growth**

	California
<b>Total Personal Income</b>	<b>6.2%</b>
Wage and Salary Disbursements	6.7%
Supplements to Wages and Salaries	9.0%
Proprietors' Income	8.2%
Farm	4.9%
Nonfarm	8.3%
Dividends, Interest, and Rent	1.0%

Source: Bureau of Economic Analysis

by 12 percent. Permitting during October and September combined was up by 7.5 percent from the same months of 2004. Residential building permits averaged 214,000 units during the first ten months of 2005, a 2.7-percent improvement on the same months of 2004.

## Nonresidential growth continues

The value of nonresidential building permits issued also weakened in October, but was up 12.8 percent from a year earlier. For the first ten months of 2005, nonresidential construction increased by 12.7 percent from the same months of 2004. The strongest gains were made in office and store construction.

## Real Estate

### Home prices hit a seasonal dip

The median price of existing single-family California homes declined for the second consecutive month in October. Home prices typically weaken during the traditional back-to-school season. Since 1988, the median home price slipped every September except one, and every October except two. The median price of existing single-family homes sold in October was \$538,770, a 1.0-percent drop from September. This is still 17.2 percent above the median a year earlier.

Given the seasonal explanation for recent weakness, California's real estate markets appear to be stabilizing. Except for a run up in August, the median home price hasn't changed much since June. Rising inventories have kept a lid on prices. The California Association of Realtors' Unsold Inventory Index-the months needed to deplete the supply of homes on the market at the current sales rate-stood at 4 months in October compared to 3.3 months in September and 3 months a year ago. Even though home sales slowed in October to 621,530 units on a seasonally adjusted, annual rate basis, the pace was essentially flat during the first 10 months of the year. Rising mortgage rates also dampened price gains. Conventional 30-year mortgage interest rates averaged 6.07 percent during October 2005, a significant increase from the 5.7-percent average in July 2005.

Despite flatter home prices, ownership is still out of reach for many Californians. The percentage of households able to afford a median-priced home was 15 percent in September, a 1 percent improvement from August, but still 4 percentage points below September 2004, according to the California Association of Realtors. The nation's affordability rate in September was 49 percent.

## CALIFORNIA'S GROSS STATE PRODUCT

Gross state product (GSP) estimates produced by the U.S. Bureau of Economic Analysis are the counterpart of the nation's gross domestic product. As such, they provide an indication of the growth and changing nature of California's economic output. According to estimates released last October, California's GSP, adjusted for inflation, grew by 5.6 percent in 2004, making California's economy the seventh fastest-growing of the state economies. It was also the California economy's fastest growth since 2000. The real value of goods and services produced in California increased by \$76.2 billion-again, the largest gain since

FIGURE 4

### Some Stability for Home Sales and Prices

California Single-Family Home Sales and Prices in 2005

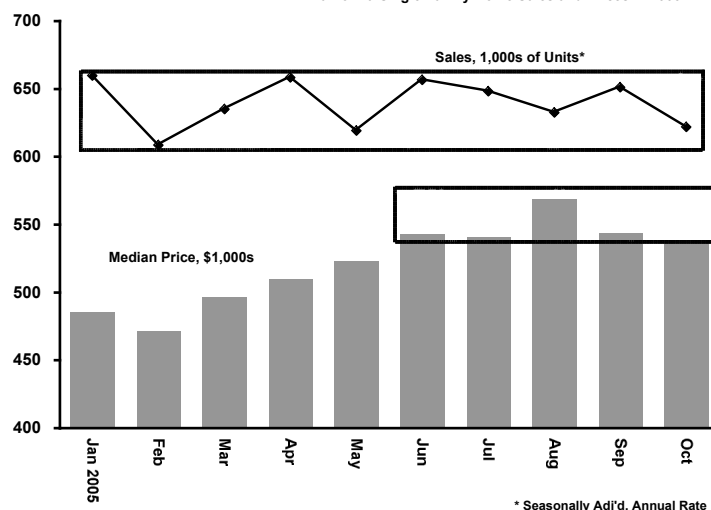
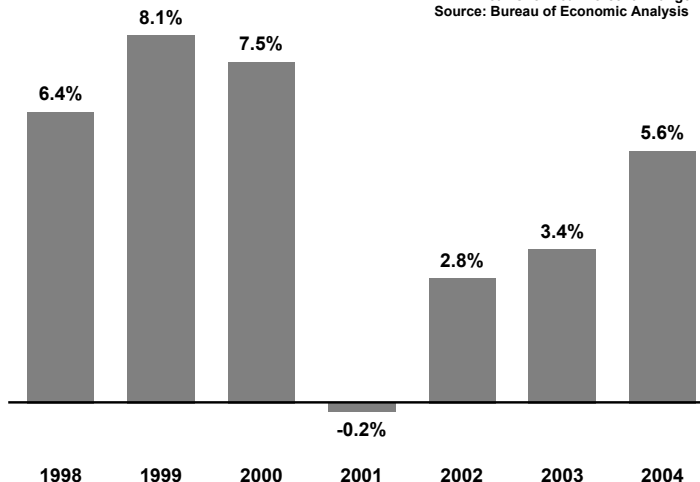


FIGURE 5

### Output Growth Improves

California Real Gross State Product  
Year-Over-Year Percent Change  
Source: Bureau of Economic Analysis



## California's World Ranking 2004 Gross Product (In current US\$)

Rank		(\$ billions)
1	<b>UNITED STATES</b>	<b>\$11,668</b>
2	Japan	4,623
3	Germany	2,714
4	United Kingdom	2,141
5	France	2,003
6	Italy	1,672
7	China (excluding Hong Kong)	1,649
8	<b>CALIFORNIA</b>	<b>1,551</b>
9	Spain	991
10	Canada	980
11	India	692
12	Korea, Rep.	680
13	Mexico	676
14	Australia	631
15	Brazil	605

2000, and 70 percent greater than the growth achieved in 2003.

In current dollars, the state produced \$1.55 trillion of goods and services in 2004, over 70 percent more than second-place New York. California was also the leading manufacturing and farming state. If California were a country, it would have the eighth largest economy in the world.

## 2004 Highlights

GSP estimates for 2004 were generated only for broad NAICS industry sectors. More industry detail will become available in June 2006 when revised estimates for 2004 are released along with the preliminary estimates for 2005. But even with their limited detail, the preliminary 2004 estimates provide insights on the California economy of 2004 that were impossible to glean from earlier-available data on employment and personal income.

Output growth was led by the manufacturing, information services, and real estate industries in 2004. Manufacturing output grew by \$14.7 billion, or 8.1 percent. More than 80 percent of this growth came from the durable products sector. Even without detailed

industry estimates, it is safe to assume that durable manufacturing growth was lead by computer and electronics output. From 1997 to 2003, computer and electronics production expanded over by 340 percent. Its share of total state output grew from 1.7 percent in 1997 to 5.6 percent in 2003.

Information services output grew by \$12.5 billion, or 14.7 percent in 2004-the fastest growing sector in percentage terms and more than double the pace it set in 2003. This sector has long been a California specialty and was an important engine of growth during the 1990's. It includes dynamic industries such as software publishing, motion picture and sound recording, broadcasting, telecommunications, and data processing (Internet).

It is no surprise that industries involved with real estate would also be among the growth leaders, given the dramatic rise in California home prices and the strong pace of home sales. Firms in real estate, rental, and leasing buy, sell, and manage real properties for others and provide related services, such as appraisals. This sector grew by almost \$10.8 billion, or 5.3 percent, in 2004. The finance and insurance sector, also closely related to the real estate market, was not far behind, expanding by \$9.5 billion, or 9.9 percent.

Output slowed in only two sectors in 2004, agriculture and private education. Since farm commodity prices are notoriously volatile, the value of agricultural output is more volatile than that of most other industries. The value of agriculture, forestry, fishing, and hunting production dropped by 4.6 percent in 2004. This followed growth of less than 1 percent in 2003, which in turn followed strong growth of 15 percent in 2002. Private educational services fell slightly in 2004.

## Gains And Losses Over The Long Run

The strength of manufacturing as reflected in GSP estimates is striking. Contrary to employment trends, manufacturing output-durables in particular-has grown in importance from 10.1 percent of the state's output in 1997 to 13.6 percent in 2004. During that time, manufacturing output growth exceeded total GSP growth every year except 2001 and 2002. Manufacturing's share of total nonfarm employment, however, fell from 13.9 percent in 1997 to 10.5 percent in 2004. Manufacturing output grew substantially from 2002 through 2004. Productivity gains driven by investment in information technologies and more intensive outsourcing are the most likely explanations for this paradox.

Technology and outsourcing probably also explain how information sector output increased without corresponding job gains. The information sector's share of California's GSP rose from 5.1 percent in 1997 to 6.8 percent in 2004. Yearly output gains averaged 9.7 percent from 1998 to 2004, while employment gains averaged only 0.9 percent.



Finance and insurance industries also made strong gains since 1997, boosted by booming high technology investments and the rising stock market up through 2001, and then by the healthy real estate markets and refinancing activity that was spurred by historically low mortgage rates thereafter. Output growth averaged 9.4 percent annually from 1997 through 2004. In contrast to the sectors discussed above, this expansion delivered stronger job growth. Finance employment grew 3.3 percent annually on average and increased its share of total industry employment from 3.8 percent in 1997 to 4.3 percent in 2004. The service nature of these industries offered fewer opportunities for productivity gains through automation and outsourcing.

The Government sector's share of total output was significantly reduced. Largely reflecting state and local government spending patterns, public sector output as a share of total state output fell from 11.9 percent in 1997 to 10.0 percent in 2004—corresponding to a 1.9-percent increase in private industry's share. Boosted by stock market-driven revenue gains, year-over-year growth accelerated to 4.9 percent in 2000 and 3.2 percent in 2001. With the subsequent stock market collapse and on-going state and local fiscal troubles, public output (spending) growth averaged just 1.1 percent thereafter.

## More Integration; California, Arizona, Nevada

The latest GSP estimates point to increased integration between California and its immediate neighbors to the east. Historically, tourism and gaming in Arizona and Nevada were the sectors most sensitive to California's economic situation. However, recent developments have supplemented and complicated these traditional linkages. The most common perception of the relationship between these three states sees Arizona and Nevada as competitors for business and residents, with bad news for California benefiting the others. In reality, they have become more economically integrated. The health of Arizona and Nevada are more directly tied to California's condition.

### Stronger Links to Arizona

Arizona's 2004 GSP was about one-eighth that of California's, but its growth rate—7.1 percent year-over-year—was stronger. Growth-leading industries included durable manufacturing, educational services, and wholesale and retail trade. Arizona has been viewed as a good location for enterprises (independent firms or subunits of California firms) that support industries in California. For instance, lower housing costs, earthquake safety, and the availability of trained workers were recently cited as the motivation for a number of large California companies to develop data processing and customer service centers in Arizona. Much of Arizona's recent development came from the augmentation of existing support facilities already located there, rather than from actual business migration. In this respect, Arizona's commercial fate has become more intrinsically linked to California's.

### Nevada More Diversified

Several trends have been at work to reduce the importance of tourism and gaming to Nevada—its traditional link to California. The proliferation of Indian casinos nationwide, and in California in particular, has drained off a good share of Nevada's gambling-related revenues. Las Vegas visitor growth is expected to grow by only about 2 percent in 2005 and 3 percent per year thereafter for the foreseeable future. This modest

FIGURE 7

## GSP Growth in 2004

### Percent Change in Output 2003-2004

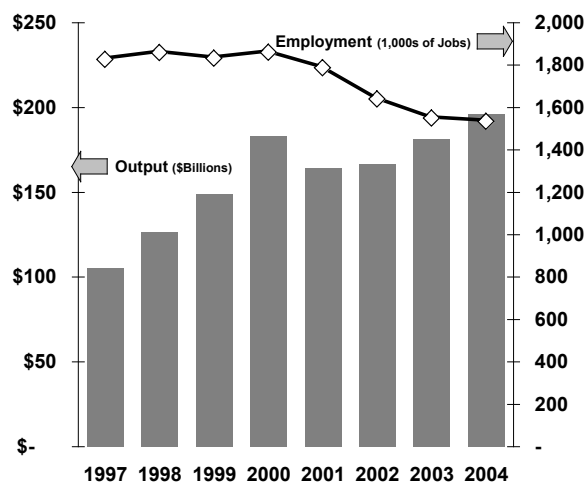
<b>Total Gross State Product</b>	<b>5.6%</b>
Agriculture, forestry, fishing, and hunting	-4.6%
Mining	11.3%
Utilities	11.0%
Construction	5.9%
Manufacturing	8.1%
Trade	4.5%
Transportation and warehousing	2.7%
Information	14.7%
Finance and insurance	9.9%
Real estate, rental, and leasing	5.3%
Professional and technical services	3.1%
Management of companies and enterprises	0.2%
Administrative and waste services	5.2%
Educational services	-0.2%
Health care and social assistance	3.3%
Arts, entertainment, and recreation	3.1%
Accommodation and food services	7.0%
Other services, except government	7.4%
Government	1.5%

Source: Bureau of Economic Analysis

FIGURE 8

## More Output, Fewer Jobs

California Manufacturing Output and Employment



growth comes at the end of a long streak of substantial hotel/casino construction. The combination of weakening demand and increasing supply means that Nevada is now less dependent on gambling-related output.

The other sectors of Nevada's economy outpaced gaming-related output between 1997 and 2004. The proportion of Nevada's GSP derived from the entertainment, recreation, accommodation, and food service industries fell from nearly 20 percent in 1997 to only 17 percent in 2004-the greatest decline among major industry sectors. The importance of retail trade and finance industries rose the most-from 12.5 percent of Nevada's GSP in 1997 to 17.6 percent in 2004.

## Prototype Methodology

The Bureau of Economic Analysis accelerated the production of its first gross state product estimates for 2004. The October 2005 release trailed the end of 2004 by only 10 months instead of the 18 months that was the norm before. Estimates for 2005 are scheduled to be released in June 2006.

The Bureau used a prototype methodology to produce the 2004 estimates. Each state's estimated total GSP is the sum of industry estimates prepared for North American Industry Classification System (NAICS) industry groups. The accelerated estimate for 2004 is based on limited source data and utilizes an abbreviated estimation methodology that differs from the standard methodology used to derive 1997-2003 estimates. Lacking detailed company financial data and state and local tax information, the 2004 estimate is based principally on estimates of state industry earnings and on estimates from the Bureau's integrated annual industry accounts. Thus, there is a strong correlation between the 2004 GSP estimates and national industry GDP estimates, and state personal income estimates. Look for revisions when the standard methodology is used to make the final 2004 estimates in June 2006.

## Select Indicators

	2004	2005				Year-Over
	Sep	Jun	Jul	Aug	Sep	% Change
<b>EMPLOYMENT (Seasonally adjusted)</b>						
Civilian employment (000)	16,531	16,845	16,883	16,958	16,999	2.8%
Unemployment (000)	1,070	966	918	933	906	-15.3%
Unemployment rate	6.1	5.4	5.2	5.2	5.1	--
Nonagricultural wage and salary employment (000) a/	14,581.4	14,753.5	14,791.6	14,831.4	14,807.7	1.6%
Goods-producing industries	2,414.5	2,456.2	2,472.9	2,474.3	2,475.9	2.5%
Natural resources and mining	22.9	22.7	22.6	22.8	23.0	0.4%
Construction	860.4	899.9	910.8	915.7	919.0	6.8%
Manufacturing	1,531.2	1,533.6	1,539.5	1,535.8	1,533.9	0.2%
Service-providing industries	12,166.9	12,297.3	12,318.7	12,357.1	12,331.8	1.4%
Trade, transportation, and utilities	2,761.9	2,768.3	2,778.7	2,783.6	2,783.0	0.8%
Information	472.3	494.8	491.0	489.4	479.6	1.5%
Financial activities	908.2	917.2	919.9	922.5	922.9	1.6%
Professional and business services	2,115.3	2,147.2	2,152.8	2,156.0	2,156.4	1.9%
Educational and health services	1,567.1	1,587.9	1,584.9	1,587.5	1,588.7	1.4%
Leisure and hospitality	1,447.6	1,475.7	1,480.6	1,484.5	1,483.8	2.5%
Other services	505.3	513.7	510.5	509.8	510.6	1.0%
Government	2,389.2	2,392.5	2,400.3	2,423.8	2,406.8	0.7%
High-technology industries b/	865.8	872.1	873.6	873.7	872.4	0.8%
Computer and electronic products manufacturing	323.2	326.8	328.1	328.4	328.3	1.6%
Aerospace products and parts manufacturing	74.4	76.2	76.4	76.7	76.8	3.2%
Software publishers	42.7	41.7	41.4	41.4	41.2	-3.5%
Telecommunications	117.9	115.9	115.6	114.9	114.4	-3.0%
Internet service providers	48.3	48.6	48.8	49.0	49.3	2.1%
Computer systems design	166.4	168.2	168.2	168.5	168.8	1.4%
Scientific research and development	92.9	94.7	95.1	94.8	93.6	0.8%
<b>HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)</b>						
Average weekly hours	39.6	39.7	39.6	40.1	40.4	2.0%
Average weekly earnings	\$610.24	\$623.69	\$624.49	\$630.77	\$634.68	4.0%
Average hourly earnings	\$15.41	\$15.71	\$15.77	\$15.73	\$15.71	1.9%
<b>CONSUMER PRICE INDEX (1982-84=100) (Not seasonally adjusted)</b>						
All Urban Consumers Series						
California Average	n.a.	201.3	n.a.	203.5	n.a.	--
San Francisco CMSA	n.a.	201.2	n.a.	203.0	n.a.	--
Los Angeles CMSA	194.5	200.7	201.4	203.1	205.8	5.8%
Urban Wage Earners and Clerical Workers Series						
California Average	n.a.	194.6	n.a.	197.1	n.a.	--
San Francisco CMSA	n.a.	197.5	n.a.	199.5	n.a.	--
Los Angeles CMSA	187.8	193.7	194.6	196.4	199.0	6.0%
<b>CONSTRUCTION</b>						
Private residential housing units authorized (000) c/	221	230	225	205	267	20.9%
Single units	159	172	161	158	191	20.1%
Multiple units	62	58	64	47	76	22.9%
Residential building authorized valuation (millions) d/	46,891	\$52,327	\$49,079	\$49,260	\$59,575	27.0%
Nonresidential building authorized valuation (millions) d/	15,819	\$18,933	\$18,270	\$17,127	\$17,800	12.5%
Nonresidential building authorized valuation (millions) e/	1,388	1,902	1,550	1,533	1,559	12.3%
Commercial	441	543	505	478	503	14.2%
Industrial	121	377	156	105	90	-26.3%
Other	300	332	297	365	344	14.7%
Alterations and additions	526	651	591	586	622	18.3%
<b>AUTO SALES (Seasonally adjusted)</b>						
New auto registrations (number)	151,309	150,806	139,959	172,212	n.a.	--

a/ The wage and salary employment information is based on the new North American Industry Classification System (NAICS).

b/ Not seasonally adjusted

c/ Seasonally adjusted at annual rate

d/ Seasonally adjusted

e/ Not seasonally adjusted

n.a. Not available

## Select Indicators *Continued*

### VACANCY RATES FOR THIRD QUARTER 2005 (Percent)

	Office Downtown		Office Suburban		Office Total		Industrial	
	3Q05	3Q04	3Q05	3Q04	3Q05	3Q04	3Q05	3Q04
Northern and Central California:								
Oakland	13.6	17.2	14.1	17.1	14.0	17.1	n.a.	n.a.
Sacramento	13.1	14.1	12.5	13.8	12.6	13.9	14.1	16.4
San Francisco	12.5	17.4	19.2	23.0	14.6	19.1	13.4	13.4
San Jose	22.2	17.9	14.1	18.9	16.0	18.7	n.a.	n.a.
Southern California:								
Los Angeles Metro	14.3	16.8	11.1	13.8	11.6	14.3	7.0	8.1
Orange County	n.a.	n.a.	6.8	11.1	6.8	11.1	8.0	8.2
San Diego	10.8	9.2	9.6	10.5	9.8	10.3	8.9	13.0
Ventura County	n.a.	n.a.	9.7	9.5	9.7	9.5	n.a.	n.a.
National Average	13.0	14.4	15.1	17.4	14.4	16.3	10.1	11.2

### FOREIGN TRADE THROUGH CALIFORNIA

#### SALES OF EXISTING SINGLE-FAMILY HOMES

		Median Price	Units (SAAR)
2002	Jan	\$287,076	584,251
	Feb	294,865	610,379
	Mar	305,838	586,225
	Apr	317,121	643,026
	May	319,591	620,301
	Jun	324,638	533,840
	Jul	321,903	540,797
	Aug	334,273	562,783
	Sep	322,452	493,803
	Oct	324,672	579,240
	Nov	328,440	542,121
	Dec	338,836	573,786
2003	Jan	\$336,212	584,600
	Feb	326,645	566,890
	Mar	351,134	567,609
	Apr	364,040	583,333
	May	367,627	572,265
	Jun	374,535	572,128
	Jul	381,938	595,858
	Aug	406,142	645,721
	Sep	384,686	631,881
	Oct	379,119	636,688
	Nov	384,472	627,190
	Dec	401,724	637,078
2004	Jan	\$404,463	615,659
	Feb	391,550	589,220
	Mar	428,060	590,220
	Apr	452,680	640,710
	May	463,320	632,380
	Jun	468,050	633,660
	Jul	462,145	639,910
	Aug	473,520	591,150
	Sep	463,630	626,210
	Oct	459,796	639,571
	Nov	471,978	652,337
	Dec	474,276	645,856
2005	Jan	\$485,700	659,406
	Feb	471,620	608,170
	Mar	496,550	634,700
	Apr	509,630	658,060
	May	522,590	618,920
	Jun	543,120	656,310
	Jul	540,900	647,910
	Aug	568,890	632,240
	Sep	543,980	650,780

#### PORTS

Exports	Imports
(\$ millions)	
\$8,688	\$15,517
8,429	15,768
9,945	16,318
9,274	17,807
9,814	17,568
9,984	18,988
9,335	18,998
9,948	19,686
9,286	19,478
8,794	18,753
9,046	20,522
8,797	19,060
\$8,408	\$17,588
8,423	16,359
9,784	18,789
9,158	19,151
9,090	18,537
9,743	19,774
9,604	20,743
9,626	19,846
8,968	21,060
10,341	23,021
9,969	21,320
10,437	20,528
\$9,062	\$19,996
9,536	18,011
11,420	22,589
10,249	21,722
10,460	21,760
10,481	23,971
10,388	24,162
10,118	24,127
10,446	23,974
10,460	25,279
9,792	25,769
10,628	22,863
\$9,405	\$22,776
9,756	21,738
11,390	23,735
10,356	24,337
10,882	24,774
11,108	26,153
10,828	26,452
11,166	26,452
n.a.	n.a.

#### DOD PRIME CONTRACTS a/

	\$ millions	% of U.S.
1993-94	22,573	20.5%
1994-95	18,277	16.8%
1995-96	18,230	16.7%
1996-97	18,477	17.3%
1997-98	17,401	15.9%
1998-99	17,372	15.1%
1999-00	18,100	14.7%
2000-01	19,939	14.7%
2001-02	23,816	15.0%
2002-03	28,681	15.0%
2003-04	27,875	13.7%

a/ U.S. fiscal year: October through September

n.a. Not available



## Leading Indicators/<sup>a</sup>

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
2001	Jan	4.1	39.9	47,433	7,556	205.3
	Feb	4.2	40.2	51,754	6,436	136.7
	Mar	4.0	39.9	53,976	6,574	143.7
	Apr	3.5	39.5	52,045	6,239	153.3
	May	3.8	39.6	56,344	6,757	152.1
	Jun	3.8	39.3	54,585	6,425	147.4
	Jul	3.7	39.5	55,086	6,532	129.3
	Aug	3.9	39.6	57,220	7,243	162.6
	Sep	3.9	39.7	59,321	5,893	113.5
	Oct	3.8	39.4	62,955	7,002	141.2
	Nov	3.6	39.0	58,250	7,315	139.3
	Dec	3.7	39.4	49,212	6,912	161.4
2002	Jan	3.8	39.0	67,463	7,283	160.6
	Feb	3.9	39.4	56,462	6,867	163.3
	Mar	4.1	39.9	61,127	7,381	143.1
	Apr	4.1	39.9	62,452	7,348	163.4
	May	4.1	39.6	61,029	8,597	157.0
	Jun	4.1	39.9	58,896	6,988	149.1
	Jul	3.9	39.3	61,909	7,252	179.3
	Aug	4.0	39.8	61,152	7,552	169.3
	Sep	3.9	39.9	60,528	7,285	182.1
	Oct	3.9	39.6	61,567	8,053	206.0
	Nov	3.8	39.6	59,053	7,545	187.2
	Dec	3.9	39.8	60,417	7,736	150.2
2003	Jan	3.9	39.6	61,430	7,430	198.2
	Feb	4.0	39.8	59,637	8,677	253.2
	Mar	3.7	39.7	59,723	7,242	180.1
	Apr	3.7	39.7	63,614	7,875	189.7
	May	3.7	39.8	61,106	7,864	210.0
	Jun	3.7	39.9	60,771	7,873	175.8
	Jul	3.8	39.5	60,213	8,026	196.8
	Aug	3.8	39.5	57,664	7,045	183.3
	Sep	3.9	39.5	57,320	8,267	189.4
	Oct	3.9	39.6	58,650	7,952	213.2
	Nov	4.0	40.1	54,900	7,474	185.4
	Dec	3.9	39.6	52,281	8,424	192.2
2004	Jan	4.1	40.0	51,052	8,086	204.0
	Feb	4.1	40.2	51,195	8,715	209.6
	Mar	4.2	40.2	49,142	8,573	223.2
	Apr	4.4	40.0	49,413	8,428	208.6
	May	4.5	40.3	46,621	8,291	201.5
	Jun	4.2	39.9	49,874	8,905	219.9
	Jul	4.4	40.2	48,251	8,376	200.1
	Aug	4.2	40.1	47,573	8,310	216.8
	Sep	4.0	39.3	46,799	8,571	221.2
	Oct	4.3	39.8	44,947	7,704	178.4
	Nov	4.4	39.8	47,368	8,979	250.0
	Dec	4.4	39.8	49,438	9,263	221.1
2005	Jan	4.3	40.3	50,966	5,869	192.9
	Feb	4.4	40.0	46,024	9,147	201.0
	Mar	4.3	40.0	45,384	9,489	226.1
	Apr	4.4	40.1	44,498	n.a.	208.9
	May	4.4	39.9	43,494	n.a.	217.4
	Jun	4.3	39.6	42,711	n.a.	230.1
	Jul	4.4	39.9	40,706	n.a.	224.9
	Aug	4.6	39.9	40,975	n.a.	204.9
	Sep	4.5	40.1	40,597	n.a.	267.4

<sup>a/</sup> Seasonally adjusted by the California Department of Finance.

n.a. Not available

## Coincident Indicators/<sup>a</sup>

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
2002	Jan	14,440	1,674	6.5	518
	Feb	14,449	1,666	6.6	544
	Mar	14,472	1,662	6.7	534
	Apr	14,460	1,656	6.7	538
	May	14,474	1,652	6.7	555
	Jun	14,459	1,646	6.8	540
	Jul	14,434	1,637	6.7	547
	Aug	14,455	1,629	6.7	525
	Sep	14,448	1,622	6.7	531
	Oct	14,468	1,615	6.7	538
	Nov	14,484	1,606	6.8	508
	Dec	14,455	1,595	6.8	511
2003	Jan	14,440	1,585	6.9	520
	Feb	14,422	1,575	6.8	522
	Mar	14,393	1,565	6.8	521
	Apr	14,389	1,559	6.9	567
	May	14,381	1,550	6.9	543
	Jun	14,371	1,544	6.9	550
	Jul	14,363	1,537	6.9	552
	Aug	14,379	1,536	6.9	528
	Sep	14,369	1,535	6.8	525
	Oct	14,414	1,531	6.8	517
	Nov	14,396	1,529	6.7	509
	Dec	14,393	1,529	6.7	503
2004	Jan	14,430	1,532	6.5	457
	Feb	14,447	1,530	6.4	453
	Mar	14,455	1,528	6.4	444
	Apr	14,476	1,530	6.4	438
	May	14,484	1,530	6.3	416
	Jun	14,479	1,527	6.3	449
	Jul	14,594	1,547	6.2	404
	Aug	14,586	1,539	6.1	420
	Sep	14,581	1,531	6.1	416
	Oct	14,634	1,535	6.0	390
	Nov	14,656	1,534	6.0	402
	Dec	14,646	1,535	6.0	398
2005	Jan	14,654	1,538	5.8	406
	Feb	14,682	1,536	5.8	395
	Mar	14,703	1,533	5.4	388
	Apr	14,721	1,533	5.4	368
	May	14,737	1,533	5.3	362
	Jun	14,754	1,534	5.4	386
	Jul	14,792	1,540	5.2	349
	Aug	14,831	1,536	5.2	366
	Sep	14,808	1,534	5.1	332

		Personal Income (\$ millions)	Total Wages & Salaries (\$ millions)	Taxable Sales (\$ millions)
2001	Qtr I	\$1,142,025	\$652,950	\$111,989
	Qtr II	1,134,846	647,680	111,275
	Qtr III	1,132,057	641,413	108,517
	Qtr IV	1,132,288	640,383	109,442
2002	Qtr I	\$1,141,567	\$642,169	\$108,528
	Qtr II	1,149,063	642,226	109,986
	Qtr III	1,147,230	639,685	111,384
	Qtr IV	1,153,614	643,855	110,449
2003	Qtr I	\$1,159,936	\$646,156	\$112,286
	Qtr II	1,176,555	655,812	113,415
	Qtr III	1,190,678	664,883	117,636
	Qtr IV	1,209,063	671,187	116,023
2004	Qtr I	\$1,229,352	\$682,144	\$122,428
	Qtr II	1,248,192	690,250	123,851
	Qtr III	1,262,883	700,403	125,590
	Qtr IV	1,309,389	723,340	124,188

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.

## ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-12 Arima program. Persons interested in a detailed description of this method are referred to the U.S. Census Bureau's Statistical Research Division.

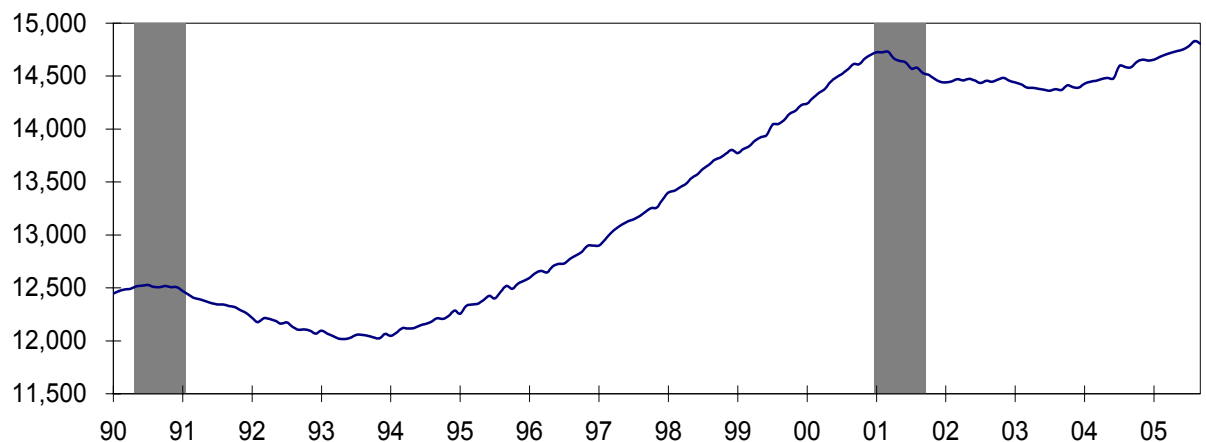
Under the X-12 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to "freeze" the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

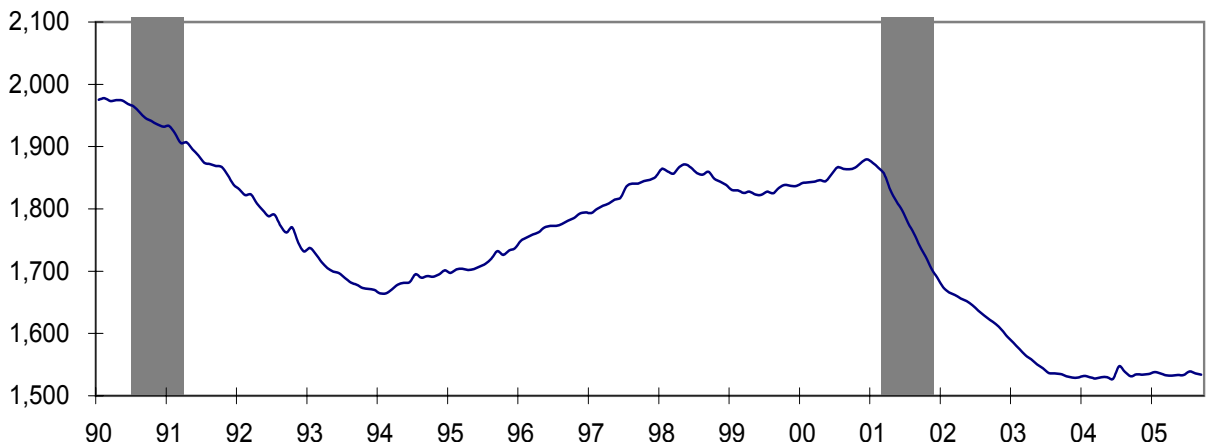
### Nonagricultural Employment

(Thousands,  
Seasonally Adjusted)

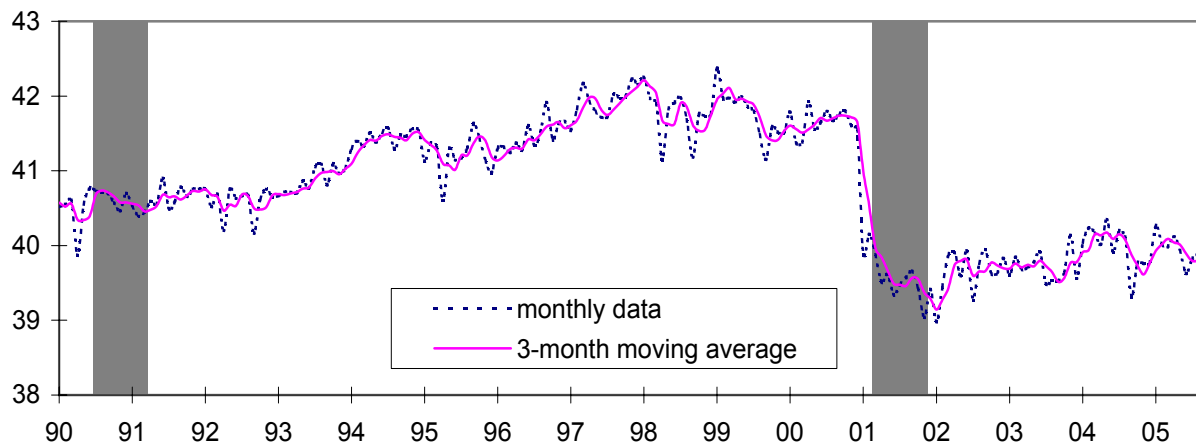


### Manufacturing Employment

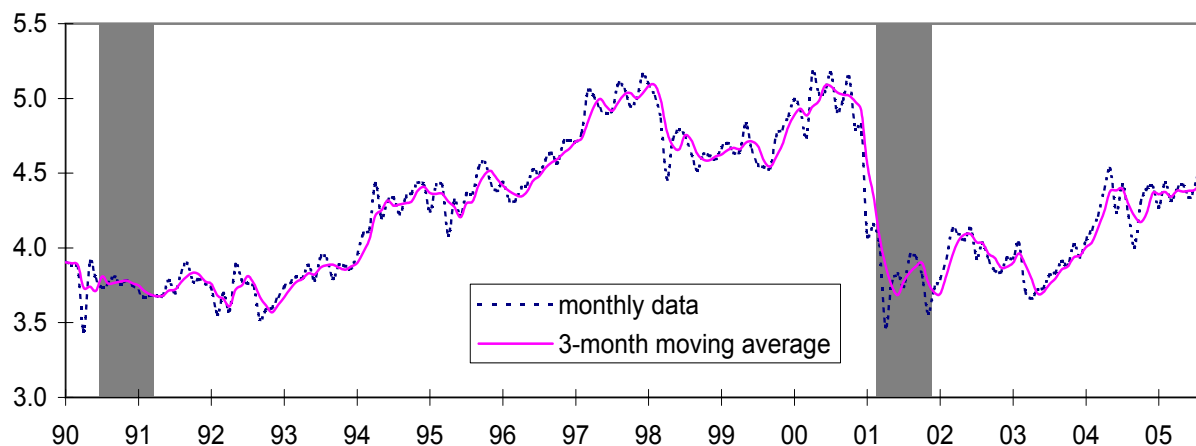
(Thousands,  
Seasonally Adjusted)



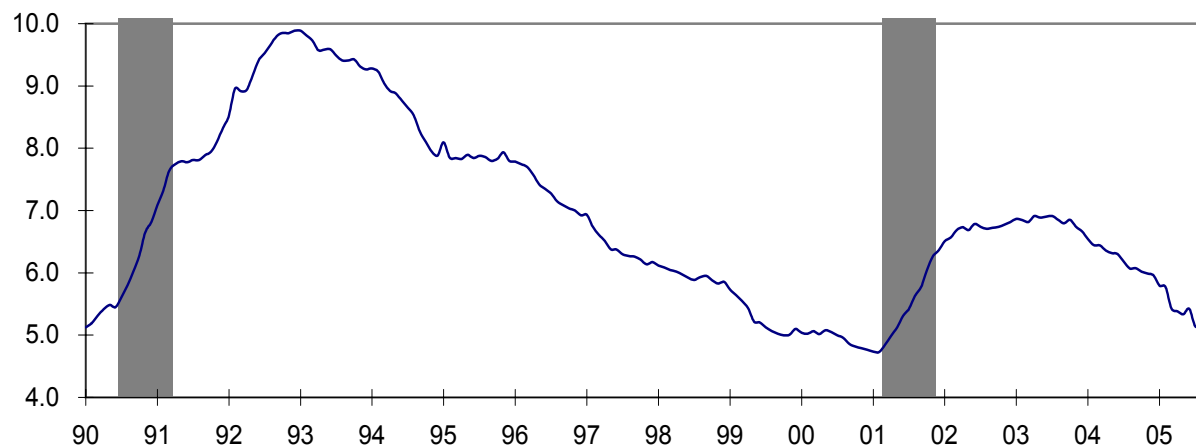
Average  
Weekly Hours,  
Manufacturing  
(Seasonally Adjusted)



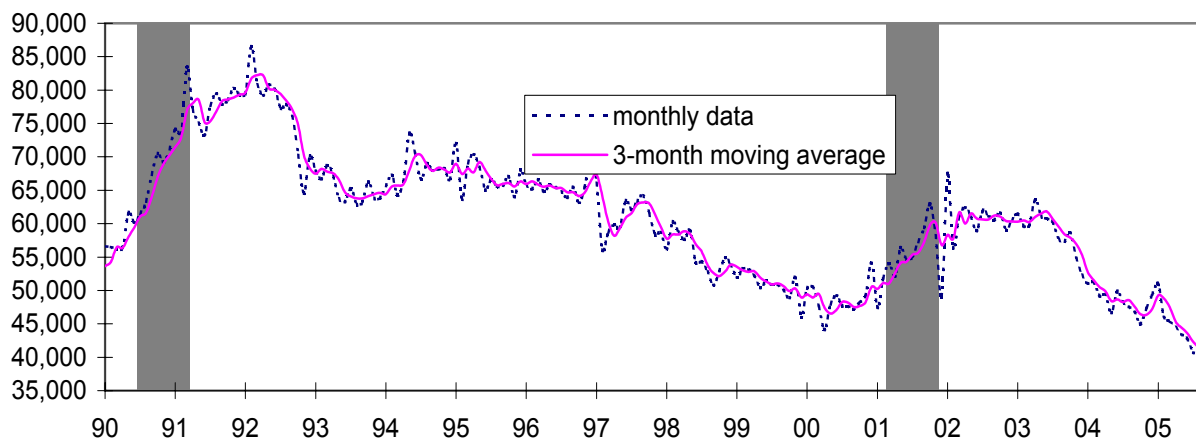
Average  
Overtime Hours,  
Manufacturing  
(Seasonally Adjusted)



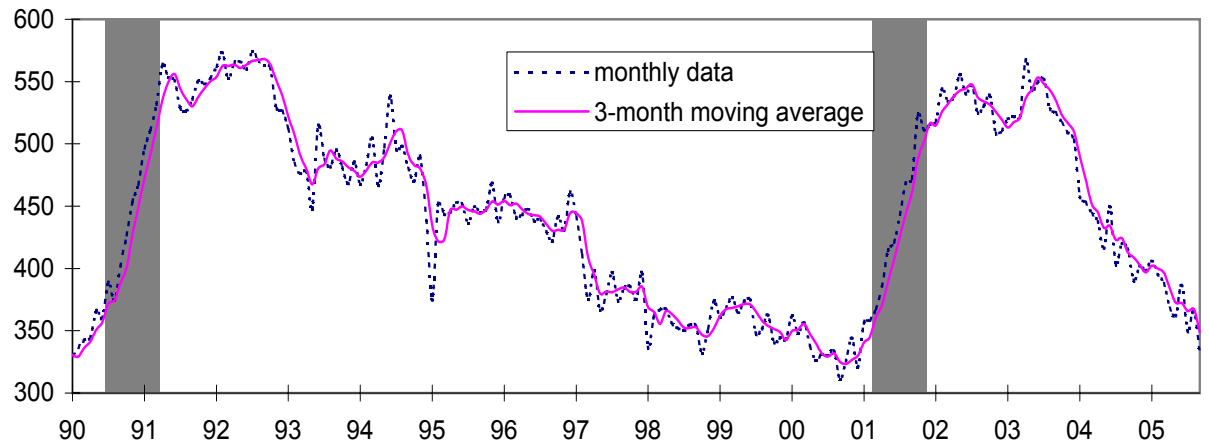
Unemployment  
Rate  
(Percent)



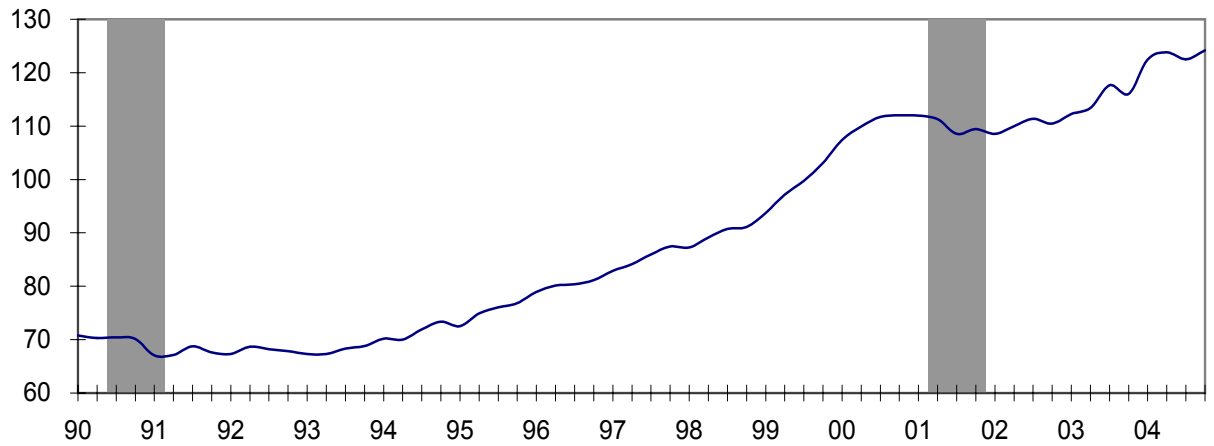
Initial &  
Transitional  
Claims for  
Unemployment  
Insurance  
(Weekly Average,  
Seasonally Adjusted)



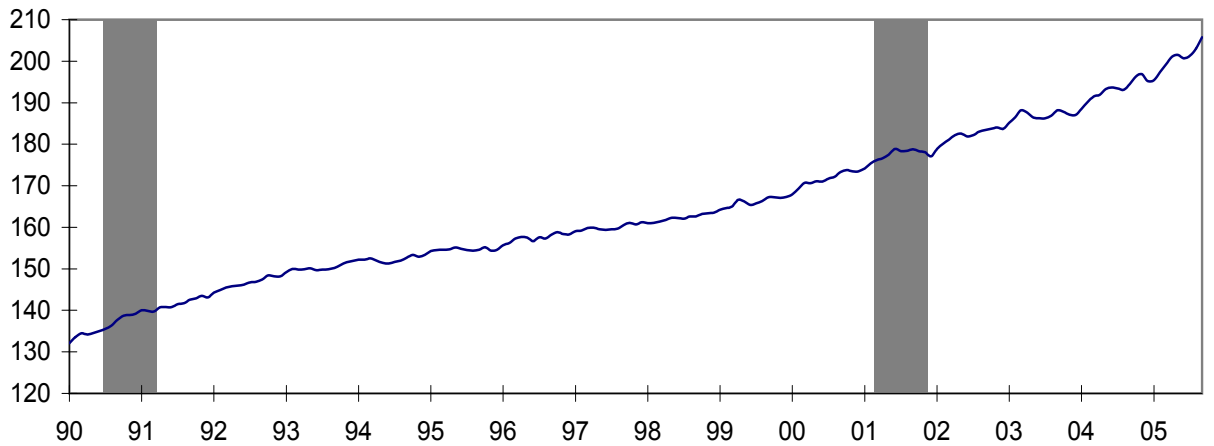
Unemployment,  
Average Weeks  
Claimed  
( thousands,  
Seasonally Adjusted)



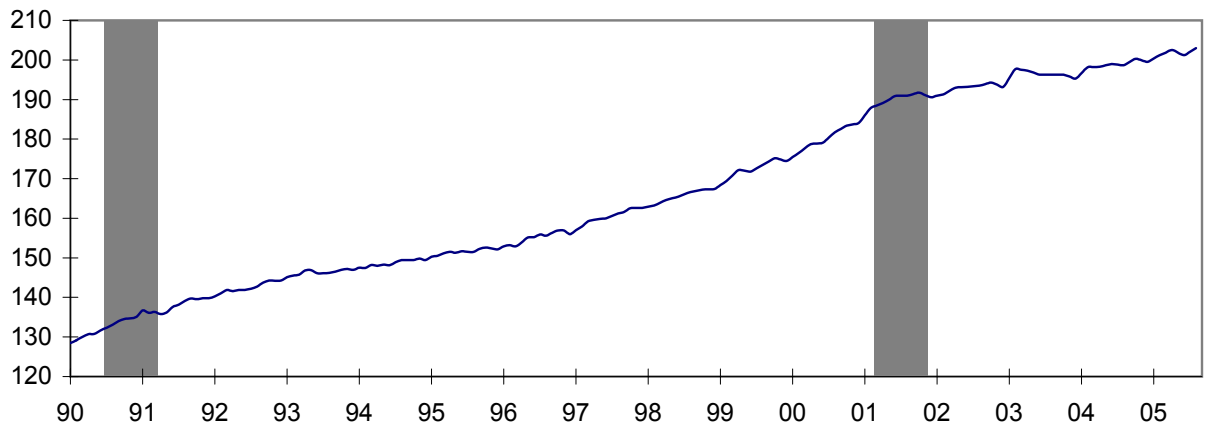
Taxable Sales  
(Dollars in billions,  
Seasonally Adjusted)



Consumer  
Price Index,  
Los Angeles  
(1982-84=100)



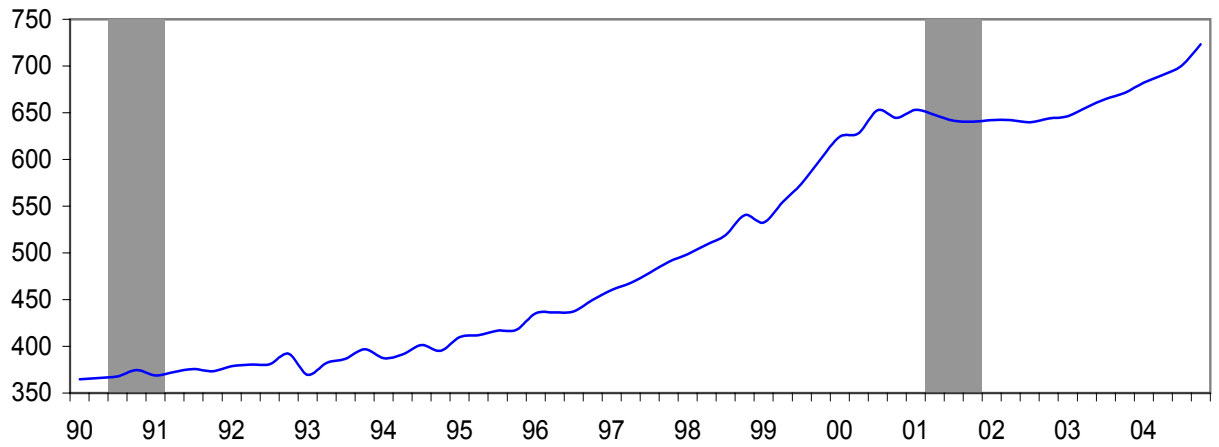
Consumer  
Price Index,  
San Francisco  
(1982-84=100)





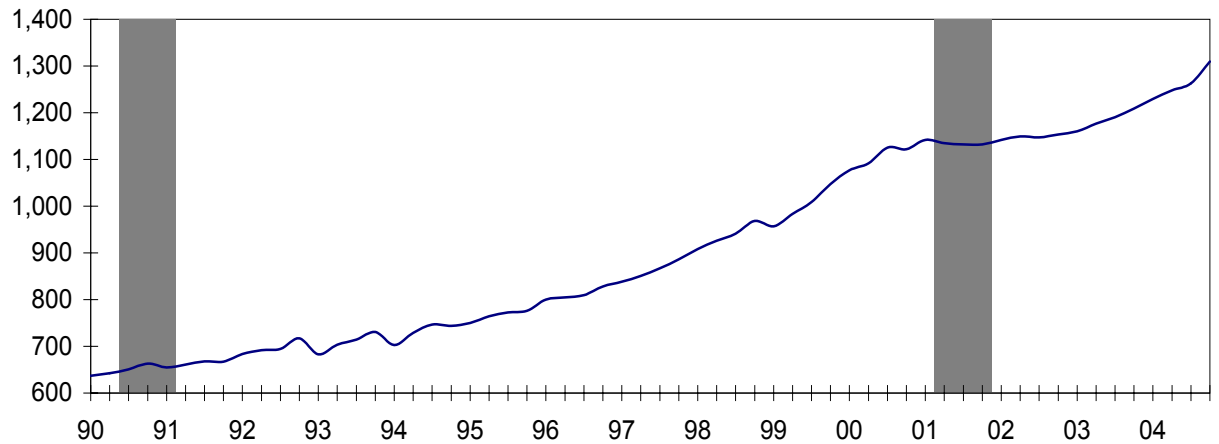
## Wages and Salaries

(Dollars in billions, Seasonally Adjusted)



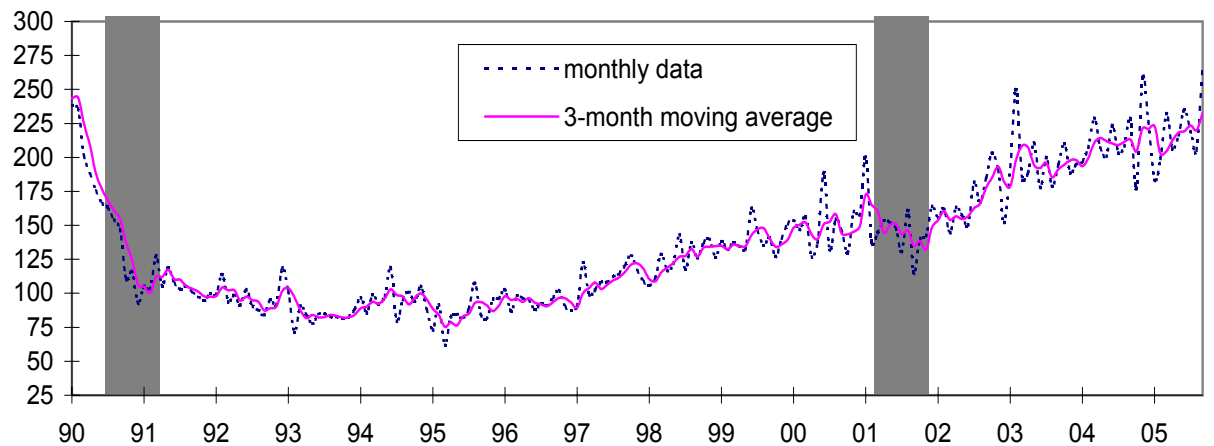
## Personal Income

(Dollars in billions, Seasonally Adjusted)



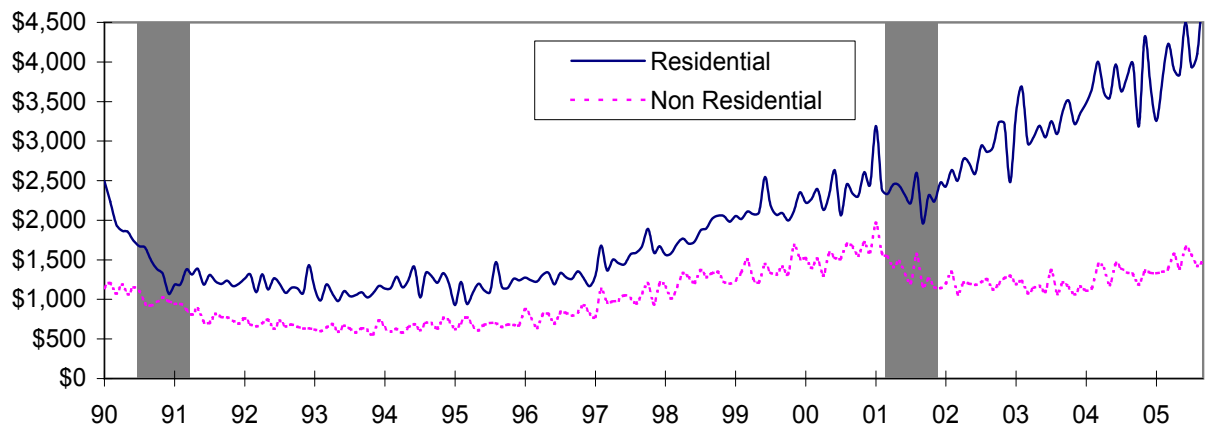
## New Housing Units Authorized By Building Permits

(thousands, Seasonally Adjusted at Annual Rate)

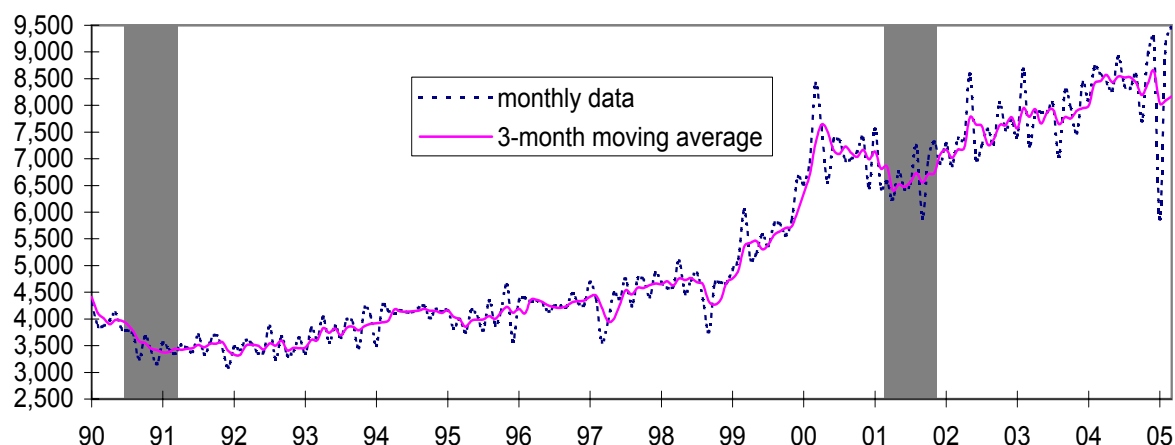


## Residential & Nonresidential Building Permit Valuation

(Dollars in millions, Seasonally Adjusted)



## New Business Incorporations (Seasonally Adjusted)



## ■ CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of events dating back to 1956 is available at the Department's internet home page at: [www.dof.ca.gov](http://www.dof.ca.gov)

### 2001

<b>June 7</b>	Federal tax cut was signed into law.
<b>June 18</b>	The Federal Energy Regulatory Commission adopted a price "mitigation" plan designed to reduce spikes in wholesale electricity prices in California and other Western states.
<b>June 27</b>	Federal funds rate reduced from 4.00 percent to 3.75 percent. Discount rate reduced from 3.50 percent to 3.25 percent.
<b>June 29</b>	First quarter GDP growth rate revised to 1.2 percent.
<b>August 21</b>	Federal funds rate reduced from 3.75 percent to 3.50 percent. Discount rate reduced from 3.25 percent to 3.00 percent.
<b>August 29</b>	Second quarter GDP grew at a 0.2 percent annual rate. Discount rate reduced from 3.25 percent to 3.00 percent.
<b>August 29</b>	Second quarter GDP grew at a 0.2 percent annual rate.
<b>September 11</b>	Terrorists attack World Trade Center and the Pentagon.
<b>September 11-14</b>	U.S. stock trading halts.
<b>September 17</b>	Federal funds rate reduced from 3.50 percent to 3.00 percent. Discount rate reduced from 3.00 percent to 2.50 percent. Dow Jones Industrials record biggest point drop in history, falling 684.41.
<b>October 2</b>	Federal funds rate reduced from 3.00 percent to 2.50 percent. Discount rate reduced from 2.50 percent to 2.00 percent.
<b>October 26</b>	Lockheed Martin Corporation awarded defense contract.
<b>November 6</b>	Federal funds rate reduced from 2.50 percent to 2.00 percent. Discount rate reduced from 2.00 percent to 1.50 percent.

<b>November 26</b>	Recession in the US began in March 2001, according to NBER.
<b>December 2</b>	Enron filed for bankruptcy protection.
<b>December 11</b>	Federal funds rate reduced from 2.00 percent to 1.75 percent. Discount rate reduced from 1.50 percent to 1.25 percent. China becomes WTO member.
<b>December 21</b>	GDP down 1.3 percent in Q3.
<b>December 31</b>	Markets fall for a second straight year for the first time since 1974.

## 2002

<b>January 1</b>	Taiwan becomes WTO member. OPEC to cut oil production by 6.5 percent. Euro becomes legal tender in 12 European countries.
<b>January 6</b>	Unemployment insurance benefits increased in California.
<b>February 28</b>	GDP up 1.4 percent in Q4.
<b>March 9</b>	California's "Job Creation and Worker Assistance Act of 2002" was signed into law that provides for temporary extended unemployment compensation.
<b>March 28</b>	GDP up 1.7 percent in Q4.
<b>April 25</b>	Security and Exchange Commission launched a formal investigation of Wall Street analysts' conflicts of interest.
<b>May 13</b>	President Bush signed a 10-year, \$190 billion farm bill that promises to expand subsidies to growers.
<b>June 27</b>	GDP up 6.1 percent in Q1.
<b>July 5</b>	Foreign direct investment flows to developed countries declined by 56% in 2001, with the United States seeing the largest fall off to its lowest level since 1997.
<b>July 8</b>	Intel launches its Itanium 2 chip.
<b>July 10</b>	President Bush called for stiffer penalties to eradicate corporate fraud.
<b>July 15</b>	Pfizer to buy Pharmacia.
<b>July 16</b>	The dollar sank against the euro for the first time in more than two years. Intel to eliminate 4,000 jobs.
<b>July 21</b>	WorldCom filed for bankruptcy protection.
<b>July 22</b>	The Dow Jones industrial average sank to its lowest level in nearly four years. Both the Nasdaq and S&P 500 are at their lowest levels since the first half of 1997.
<b>July 30</b>	President Bush signed into law the Public Company Accounting Reform and Investor Protection Act.
<b>July 31</b>	GDP growth slowed to 1.1 percent in Q2 from revised 5.0 percent in Q1. Last year's data was also revised indicating that the economy shrank in each of the first three quarters. Venture capital investments hit four-year low.
<b>August 8</b>	IMF signed an emergency loan to Brazil.
<b>August 11</b>	U.S. Airways filed for bankruptcy.
<b>August 20</b>	The U.S. trade deficit narrowed in June, following two straight record monthly deficits.
<b>September 27 –October 9</b>	Cargo operations at 29 West Coast ports ground to a halt when terminal operators locked out unionized workers.
<b>November 6</b>	Federal funds rate reduced from 1.75 percent to 1.25 percent.

<b>December 9</b>	Discount rate reduced from 1.25 percent to 0.75 percent.
<b>December 19</b>	United Airlines filed for bankruptcy protection.
<b>December 19</b>	Standard & Poor's lowered California's bond rating to an A from an A+.

## 2003

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<b>February 10</b>	Moody's lowered California's bond rating to A2 from A1.
<b>February 14–17</b>	A major snowstorm hit the Middle Atlantic and Eastern states.
<b>February 26</b>	Doctors in Hong Kong report the first case of a flu-type virus "Atypical Pneumonia" now more commonly known as Severe Acute Respiratory Syndrome (SARS).
<b>March 20</b>	Operation Iraqi Freedom begins.
<b>April 9</b>	Baghdad falls and Iraqis and American troops topple statue of Saddam Hussein.
<b>April 14</b>	President Bush declares conclusion of major combat operations in Iraq.
<b>June 25</b>	Federal funds rate reduced from 1.25 percent to 1 percent, the lowest rate in 45 years.
<b>June 26</b>	GDP up 1.4 percent in Q1.
<b>July 17</b>	The US recession ended in November 2001, according to NBER.
<b>July 24</b>	S&P lowered California's bond rating from "A" to "BBB".
<b>July 25</b>	United States Treasury begins mailing \$400 per child tax rebate checks.
<b>August 2</b>	Governor Gray Davis signs the 2003-04 state budget bill.
<b>August 4</b>	Moody's lowered California's bond rating from A2 to A3.
<b>August 28</b>	GDP grew at a revised 3.1 percent annual rate in the 2 <sup>nd</sup> quarter.
<b>September 3</b>	Light vehicle sales in the U.S. reach 19.0 million in August, the second best monthly rate ever.
<b>October 21</b>	Wildfires breakout in Southern California, eventually burning 743,000 acres and destroying over 3,500 homes.
<b>October 30</b>	GDP grew by 7.2 percent, its fastest rate since 1984.
<b>December 4</b>	President Bush ends steel tariffs.
<b>December 12</b>	Dow Jones Industrial average closed above 10,000 for the first time since May 24, 2002.
<b>December 13</b>	Saddam Hussein captured by American troops.
<b>December 23</b>	Final report shows GDP grew by 8.2 percent in the third quarter, its fastest rate since 1984.
<b>December 24</b>	U.S. confirms first case of "mad cow" disease.

## 2004

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<b>February 10</b>	Unexpected cut in OPEC quota and cold weather contribute to higher oil prices.
<b>February 11</b>	Dow Jones Industrials closed at highest level in more than 2½ years.
<b>March 25</b>	Fourth quarter GDP rose 4.1 percent.
<b>April 30</b>	International oil prices hit a 3½ year high.
<b>May 21</b>	Moody's raised California's credit rating from "Baa1" to "A3".
<b>May 27</b>	First quarter GDP grew at a 4.4 percent annual rate.
<b>June 30</b>	Federal funds rate increased by 25 basis points bringing the rate up to

	1.25 percent. It is over four years since the Fed last tightened rates.
<b>August 9</b>	Fitch removes California from Rating Watch Negative.
<b>August 10</b>	Federal funds rate raised from 1.25 percent to 1.50 percent.
<b>August 24</b>	S&P raised California's credit rating from "BBB" to "A".
<b>August 27</b>	Second quarter GDP grew at a 2.8 percent annual rate.
<b>Mid-August</b>	Hurricane Charley hits Florida
<b>September</b>	Three powerful hurricanes (Frances, Ivan, and Jeanne) hit Florida and some neighboring states.
<b>September 21</b>	Federal funds rate raised from 1.50 percent to 1.75 percent.
<b>October 29</b>	GDP grew at a 3.7 percent rate in the third quarter.
<b>November 10</b>	Federal funds rate raised from 1.75 percent to 2.00 percent.
<b>December 14</b>	Federal funds rate raised from 2.00 percent to 2.25 percent.
<b>December 22</b>	GDP grew at a 4.0 percent annual rate in the third quarter.
<b>December 26</b>	A magnitude 9.0 earthquake — the largest in 40 years — struck the northern Indonesian island of Sumatra, triggering a tsunami that killed tens of thousands of people in more than 11 countries.

## 2005

<b>January 22-24</b>	Blizzards blanketed large parts of the Northeast.
<b>January 30</b>	Iraq held its first free election in half a century.
<b>February 2</b>	Federal funds rate raised from 2.25 percent to 2.50 percent.
<b>March 22</b>	Federal funds rate raised from 2.50 to 2.75 percent.
<b>March 30</b>	GDP grew at an annual rate of 3.8 percent in the fourth quarter of 2004.
<b>April 28</b>	GDP increased at an annual rate of 3.1 percent in the first quarter of 2005.
<b>May 3</b>	Federal funds rate raised from 2.75 to 3.00 percent
<b>June 29</b>	GDP increased at an upwardly revised 3.8 percent in the first quarter of 2005.
<b>June 30</b>	Federal funds rate raised from 3.00 percent to 3.25 percent.
<b>July 11</b>	Governor Arnold Schwarzenegger signs the 2005-06 state budget bill. Moody's Investor Services and Fitch Ratings upgraded the state's bond ratings.
<b>August 9</b>	Federal funds rate raised from 3.25 percent to 3.50 percent.
<b>August 29</b>	Hurricane Katrina ripped through Louisiana, Mississippi and Alabama causing billions of dollars in damage.
<b>August 31</b>	GDP increased at an annual rate of 3.8 percent in the first quarter and 3.3 percent in the second quarter of 2005.
<b>September 20</b>	Federal funds rate raised from 3.50 percent to 3.75 percent.
<b>October 14</b>	Overall consumer prices rose at the fastest pace in more than 25 years last month.
<b>October 17</b>	The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 goes into effect.
<b>October 24</b>	Hurricane Wilma battered Florida.